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10 May 1954

D. N. Heineman, Esq.
Suite 1700
50 Broadway
New York 4, N. Y.

Dear Mr. Heineman:

I have read with the greatest interest your address at the General Meeting of Shareholders of Sofina on the Changing International Environment. You have spoken from great knowledge of this complicated situation and have made a real contribution.

Faithfully yours,

Allen W. Dulles
Director

AWD:at

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WITH THE COMPLIMENTS OF

D. N. HEINEMAN

The Changing International Environment

APRIL 1954

BRUSSELS

Approved For Release 2002/03/22 : CIA-RDP80R01731R000500440001-2

THE CHANGING INTERNATIONAL
ENVIRONMENT

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ADDRESS

BY

MR. DANNIE N. HEINEMAN,
CHAIRMAN OF THE STANDING COMMITTEE,

DELIVERED AT THE
GENERAL MEETING OF SHAREHOLDERS OF

**Société Financière de Transports
et d'Entreprises Industrielles**
(SOFINA)

APRIL 22nd, 1954.

GENTLEMEN,

EVERY year since the end of the Second World War has demonstrated in what an age of international tension we are living. Casting our minds back over the events of 1953, that year is seen to have been no less critical than the other postwar years. Whether it was a year of increasing or diminishing tension remains to be seen. Our judgment will be affected by the results, *tested in action*, of the Conference at Geneva that is to begin next week. The agreement to hold this Conference

on the problem of aggression in the Far East was the only concrete outcome of the Berlin meeting of the four foreign ministers. That meeting was the first full-dress discussion among the four Great Powers at a high level since the breakdown at the London meeting of the Council of Foreign Ministers in December 1947, by which time the Western nations had already shown their determination to work together for economic recovery, with or without the co-operation of the Soviet Union and its satellites.

Political events have far-reaching repercussions on the economies of all countries. Businessmen are affected by them probably more than ever before, and they ignore them at their peril. Of all the critical events of 1953, that which caused greatest speculation in the chancelleries of the world was the death of Stalin in March. Did it portend changes in Russian policy that would ease world tension? Hopes that it would were combined with fears for the effect, especially on the American economy, of a slackening in the pace of rearmament. The strain of rearmament was beginning to tell in most countries, and this, combined with the growing belief that the threat of aggression from Russia was not immediate, led to the adoption of the « long-haul » concept of rearmament. The determination to be prepared to resist aggression was not to weaken, but it was founded on a more realistic assumption regarding the maintenance of economic strength, which is essential not only to military power but to political stability.

Two other outstanding events of 1953 bore on this problem of the pace of rearmament - the armistice in Korea in July, and the explosion of the hydrogen bomb by Russia in August. The joy and relief felt when the tragic loss of life in Korea was halted did not lessen the determination to be prepared. If it had, the announcement that Russia had the destructive hydrogen bomb would have served as a sobering lesson.

Many other political events in many parts of the world marked 1953 as an outstanding year. To mention only a few : the heroic revolt of the populace of East Berlin against their Soviet oppressors, which showed that the torch of freedom was still burning; the decisive victory of Dr. Adenauer in the elections of September, which was a consolidation of political strength paralleling the remarkable economic recovery of Germany; the re-establishment of rational direction in the affairs of state in Iran; and the action reminiscent of an earlier age by the British in forestalling a communist coup in Guiana. None of these, however, caused as much stir throughout the world as the new Administration in the United States, which began a thoroughgoing re-examination in preparation of the possible reformulation of American foreign policy in the political and economic fields.

In the political field, the sufficiency of a policy of « containment » was questioned, but no great changes were made in American policy, although for a while fears were alive in Europe that a policy more provocative of Russia might be adopted. At

the end of the year, however, the meeting of the Big Three at Bermuda reinforced the unity of the Western allies in confronting the Soviet Union, which had been continuing its efforts to divide them. After the meeting, President Eisenhower endeavoured to deflect men's minds away from the destructive toward the peacetime uses of atomic energy through international co-operation.

In the foreign economic field, the United States frankly pursued a « hold the line » policy for one year, while a joint Congressional-Executive Commission, under the chairmanship of Mr. Clarence B. Randall, studied and reported on the subject. The recommendations of the commission on Foreign Economic Policy cover all aspects of American policy in relation to international trade and investment, and it was evident from the differences of opinion within the Commission, as well as from the reception accorded its proposals, that the great debate on the degree to which the United States can isolate itself from the rest of the world is still on. The action taken by Congress in the foreign economic field will be anxiously awaited, for its consequences for the free world may be as fateful as the repercussions of any political events on the course of economic and social progress. How great is the influence of the United States on the rest of the world can be seen from the universal concern - even greater abroad than in the United States - with the question of American recession or readjustment in 1954. During the same period, the nations of the western hemisphere have inten-

sified their efforts toward a closer economic collaboration amongst themselves. This trend is due foremost to the remarkable industrial development which has taken place in many countries throughout Latin America.

In reflecting on the outlook ahead, my mind turns irresistibly to the beginning of my career of engineer and businessman, to the decade before I took charge of the affairs of Sofina. These ten years, spanning the end of the past and the beginning of the present centuries, were also full of critical international events, and I wonder what lessons are to be learned from a comparison between the international scene then and to-day.

In the Europe of 1895 six Great Powers stood out as the custodians of world peace. The five Continental powers were aligned in two groups - Germany, Austria, and Italy in the Triple Alliance, France and Russia in the Dual Alliance. Up to 1900, England stood aloof in isolation, Lord Salisbury being convinced that the traditional policy of the « free hand » rather than Continental entanglements was the best safeguard of England's interests.

The relations among the Powers were more shifting than the tidy grouping in alliances would suggest. For England, the traditional enemy was still France, and interests clashed at all points of contact between their overseas empires. Under the influence of the German Flottenpolitik, this was soon to change, but while the rapprochement with France was developing, England kept a wary eye on the ambitions of Russia (the ally of France) in

the Balkans, in Persia, and in China - in fact throughout southeastern Europe and all of Asia - because they boded ill for the safety of India and the British Empire to the east. Danger from Russia in the Far East was the signal for the alliance with Japan, although this was soon followed by a detente with Russia under the influence of a pugnacious Germany. The weakening of Russia by the war with Japan reacted on its relations with other European powers and was to play a part in stimulating Austrian ambitions in the Balkans, which finally led to the First World War.

This is a general picture of the European chess-board on which the diplomatic moves were to be made in pursuit of political and economic ends. Japan and the United States were emerging as world powers, but the centre of power, in which it was decided whether a war would be local or worldwide, was still Europe.

Economic motives played a prominent part in the politics of the decade 1895-1905 - more visibly than they do to-day. In the second half of the nineteenth century, a changed view of the value of colonies gave new life to economic imperialism. The old colonial powers no longer regarded colonies as a burden on the mother country, but as sources of raw materials and outlets for manufactures. After 1870, two new colony-seeking powers, Germany and Italy, entered the scramble for overseas territory. Colonies were acquired with more deliberate intent than ever before, and frequently war or the threat of it was the means adopted. Where

economic aims were not attained by colonization, the method of spheres of influence was used to safeguard the economic as well as the political interests of the powers.

Clashes among the Great Powers, whether in pursuit of colonies or of spheres of interest, covered a great part of the globe. Morocco, Egypt, East and West Equatorial Africa, the Balkans, the Middle East, Southeast Asia, the Pacific Islands, and China were all involved at one time or another. Only the Americas escaped under the protecting screen of the Monroe Doctrine; but even there the rivalry of the European capital-exporting powers was at work. The pattern and outcome of the clashes varied. In North Africa, Fashoda was a climax, after which France and England settled their differences by dividing their spheres of influence between Morocco and Egypt. Perhaps it was as a token of the new friendship that England renamed the village in the Sudan, where this incident occurred, Kodok so that the map could be searched in vain for Fashoda! Later, on two occasions Germany caused uneasy moments in Morocco, but the peace continued unbroken.

Turning to the Far East, the completion of the Trans-Siberian Railway in 1895 gave Russia the initiative in the struggle for position in China until 1905, and war was necessary to check Russian expansion. The Russo-Japanese War left Japan firmly in the saddle in Korea and South Manchuria, although Russia retained its sphere of influence in North Manchuria and Outer Mongolia. The con-

sequences of the war, however, extended far beyond these territorial spheres. For the first time, a non-European power had defeated a European Great Power, but it had done so largely because it had adopted Western economic institutions. The event was a turning point in history, for other countries henceforth strove at once to imitate the West and to resist domination by the European powers. An awakening began and thereafter nationalist aspirations developed at a pace that out-distanced the efforts of the most liberal colonial powers to keep up with it.

It was events in the Balkans, which were closely connected with the tottering condition of the Ottoman Empire, that proved to be uncontrollable. Force was easier to apply there by the powers with great conscript armies than had been the case in the Far East, and when one Great Power moved, it proved to be impossible to localize the conflict. But that goes beyond the period to which my mind has been turning.

Foreign lending played an important role in the decade 1895-1905, and it was subject to varying degrees of control by the governments. Political control was most prevalent and undisguised in France. The important capital market of Paris was thrown open or closed to foreign government issues by cabinet decision. The alliance with Russia was nurtured by the savings of the French people. Controls in the other large lending countries, Germany and England, were more informal and less in evidence, but they existed. In England,

the storm of public protest against British financial participation in the Baghdad railway project frightened off the private group that had been organized in the City and led to a cabinet decision forbidding the investment.

Financial support of the Sultan in Constantinople was part of the effort of the Great Powers to settle the « Eastern Question ». The Capitulations, the control exercised by the Powers through the Public Debt Administration, and the Political struggle for concessions - all these complicated the private financial processes of investing the capital of the West in Turkey. This intermingling of politics with private financial activities left an enduring distrust of foreign investment and of the motives of foreign investors that has not yet been fully eradicated.

A similar distrust was created in China. The « open door » was the basis of British and American policy in the China trade, but investment was channelled in accordance with agreed spheres of influence. Distrust of foreign investment was not confined to any one area - there arose a fear of economic imperialism throughout the world.

A different kind of problem arose in Latin America in connection with German activity in that area. Here investment was not a part of the political struggles among the Great Powers for spheres of influence, and the German economic penetration took the form of private *Unternehmungskapital*. It nevertheless caused resentment among the other Powers. The very fact that the Latin American activities were part of the German challenge to the

entrenched positions of France and England caused the successes of German capital and industry to be suspected of being due to Government backing. In this case economic rivalry was a source of political irritation.

I have painted a picture emphasizing the importance of the political side of the international environment, because politics then as now create hazards of which businessmen have to beware. But great industrial developments were also taking place in the decade to which I have been looking back, and yet how primitive was, for instance, the technical condition of the electric power industry in those days. How many of you will recall the power plant of the Municipality of Saint-Gilles, near Brussels, that was installed in the slaughter-house building; or of the small plant at the rue Brogniez, consisting of steam engines with belt-driven dynamos, which until 1903 served the Tramways of Brussels. You will also recall the small power-station of the rue Ste. Catherine built by the City of Brussels which was replaced by a then modern station equipped with Van den Kerchove and Carels steam engines. Changes also were occurring in the distribution of productive capacity in the nineties, which I may illustrate by recalling that around 1890 the Bewag, Berlin, had to order its steam engines from Van den Kerchove in Ghent (Belgium), such was the backward state of German production.

Rapid though the rate of change seemed to be in those days, the tempo has been continually increas-

ing. Yet there still exists a gap between scientific discovery and the practical application that is necessary to reap the fruits of inventiveness. It is true that the gap, measured in time, is narrowing. In 1833, for example, Gauss and Weber built the first telegraph, which sent messages from the Goettingen Mathematical Institute to a nearby church, but it was many decades before their discovery was developed into a universal means of communication. A similar interval of time lay between the discovery of the law of induction by Faraday in 1833 and its rudimentary application to the production of the first incandescent lamp in 1878, when Edison provided the filament by carbonizing a thread taken from his wife's sewing basket.

To-day, this gap has narrowed in time, but ever greater expenditures of enterprise and material resources seem to be necessary to bridge it. What great efforts were expended in the United States alone to increase the production of electric energy from 2.4 billion kWh in 1900 to over 510 billion kWh in 1953! How spectacular is the accompanying growth of the sale of electric equipment by the largest American producer from \$ 28 million in 1900 to \$ 3.1 billion in 1953! The greater part of this increase - and of similar changes in other industries - has occurred over the last twenty years.

It has been easy for me to look back over fifty years, but I would not venture to look forward longer than ten years. This is far enough, however, to envisage new explorations in the mysteries

of the universe, and technological changes in applying them for the benefit of mankind, that might easily dwarf the progress made in the last fifty years. It seems astonishing that the American professor Lovering should have said a hundred years ago in a lecture on electricity before the Boston Lowell Institute that « electricity will never be used generally for the purpose of mechanics or locomotion because of its expensive character, 25 cents expended in steam being as productive of power as \$ 2 expended in electricity... Steam is perfectly under the control of machinery, but the electric current is not, at least by any known appliance ». To-day one can shave electrically for a year at a cost of a few cents of electric energy !

We are confronted with whole new horizons that promise unlimited progress in conquering the universe. Electronics - that flowering from the seed of the « Edison effect » through the work of Fleming and De Forest and others - offers prospects in the office, factory and home for reducing human drudgery that challenges the results of the industrial revolution which followed the invention of the steam engine. Industrial Revolution II is underway. Its symbol is the tiny electron tube. Developments in the field of electronics are coming so fast that it is difficult to predict what to expect to-morrow, for it may already be here to-day. Electronics have opened the fascinating vistas of space travel. Already we are launching into space missiles guided by electronics. New industrial uses are being found every day for its magic ability. Elec-

tronic « brains » are performing prodigious mathematical tasks in seconds. But, most scientists agree, this is only the beginning ! Even in the revolutionary electronics industry a revolution is taking place. The electron tube is a delicate piece of equipment, the manufacture of which requires great care and which has a limited life. Recent discoveries have resulted in the « germanium transistor » which performs nearly all the functions of the electron tube and is of extremely simple construction. Its cost is eventually expected to amount to only a small fraction of a conventional tube, and it has almost unlimited life. Since electronic circuits employing millions of electron « emitters » are in prospect, the simple transistor will have a great impact on the economics and size of electronic equipment. It is not for me to prophesy the potentialities, even in the electric utilities, of industrial atomic power, but whatever lies in the future it is certain that vast expenditures of capital and enterprise will be essential to spread the benefits of scientific discovery throughout the world.

It seems to me on looking back that it was easier to do business fifty years ago than it is to-day. I attribute this difference to the presence of three things in the economic environment that are missing to-day : we could operate the world over in convertible currencies; the absence of exchange controls left us free to use practical business judgment in protecting ourselves against the consequences of instability in any particular currency; and we were not under the threat of nationalization or indirect

confiscation by government acts of interference with our operations.

Moreover, while the political tensions were frequently disturbing, we were not living on the brink of a general war. There was a feeling that if wars did break out they could be localized, even though no collective security organization existed in those days as we have it to-day. The world was not divided into two camps by ideological or other differences in outlook. It is true that there were influences at work in the political field that were of an ideological nature. For example, Austria relied on its common reactionary attitude with Russia on the need for resisting political and social change in its efforts to gain support from that country for some of its Balkan policies. But difficulties from this source did not approach those arising from present-day Communist propaganda or subversive activities that are based on an appeal to the Communist ideology. I do not mean to imply that the source of Russian and Chinese aggressiveness lies in ideology. The aims of Russia in the Baltic States, in South East Europe and the Middle East, in Central Asia and in the Far East were clearly revealed in 1939 during the negotiation of the German-Soviet Pact. They remained what they had been under Tzardom and we have no reason to believe that they are different to-day. All that has changed is the addition of the ideological weapon to the means of attaining the aims. Incitement to revolution against established political order has replaced the former reactionary support of the political and economic

status quo. But now as then, armed force in the background lends support to diplomacy and stands ready to put the seal of finality on gains accruing.

Nor was there fifty years ago any extensive machinery for co-operative international action in the economic field. I sometimes think that the feeling during and after the war of the need for such organization as we now have was due in part to the disintegration of the world economic system that occurred during the inter-war years and especially about 1930. Certainly, the International Bank, the Monetary Fund and the Food and Agriculture Organization have performed positive functions that have improved very considerably the international economic environment. My point is, however, that the activities of these organizations cannot make up for the failure since the war to reconstruct an economic system in which private business can work freely and smoothly. That this is so is coming to be more widely recognized in the Western world.

Economic progress in Europe, the recipient of by far the greatest part of American aid since 1948, has been accompanied by a growing determination to move towards currency convertibility. This has become more evident since I addressed you a year ago, when I paid special attention to this subject. It has been one of the declared aims of German policy; at the recent meeting of the British Commonwealth in Australia it was reiterated as the aim of that group of nations; and it occupied a prominent place in the recommendations of the Randall Commission on American Foreign Economic Policy.

How important convertibility is in the case of Great Britain can be seen from the fact that 40 % of world trade is financed by the pound sterling. But hand in hand with the approach to currency convertibility should go the removal of trade restrictions, for the freeing of currencies from control, while retaining restrictions on trade, would make a farce of the return to convertibility. The end in view is a relatively free trading system based on multilateral payments among countries.

Likewise, the other subject to which I devoted special attention last year has become more prominent. In the United States the Randall Commission has drawn attention to the importance of clearly formulating the position of that government regarding the encouragement of foreign investment. Before beginning the work of the Foreign Economic Policy Commission, Mr. Randall had led a mission of the United States Government to Turkey in order to study methods of improving the underlying conditions bearing on the attraction of private foreign investors, and in January the Turkish National Assembly passed a law liberalizing the transfer of earnings and capital. Recommendations have now been made by the Foreign Economic Policy Commission for action by the United States Government, through tax concessions and otherwise, to encourage American investors and enterprises to go abroad. Action to improve the conditions for international investment has also been given special attention recently by the O.E.E.C. Much remains to be done, but it is more clearly recognized now than at any

time since the war that both the rate of economic progress in all countries and the creation of a good international environment for business activity depend on this revival of the international distribution of capital and enterprise. Even if the world remains divided — and whatever degree of political tension may continue — great strides can be made if all the countries of the free world, borrowers and lenders alike, bend their wills to the creation of the necessary conditions for foreign investment.

How can I summarize the changes that have occurred in the international environment since that decade fifty years ago ? Sometimes I ask myself : Has it changed in essentials or is it a case of « plus ça change, plus c'est la même chose » ? Important changes have of course taken place. It is commonplace to say that under the influence of modern methods of communications and transportation the world has shrunk; and that this has brought closer contacts among peoples, which has led to a rate of change in political, social and economic institutions as well as in ideas that was undreamed of fifty years ago. The fulfilment of the legitimate aspirations of nationalism in dependent territories has, I would say, produced a fundamental change in the political, social and even the economic environment, making undoubtedly for greater stability in the long run, but for the time being introducing new uncertainties into the international scene. The more terribly destructive methods of warfare that have been invented may be said to have changed the

nature of the military security problem and the threat to our civilized existence that it contains.

On the other hand, there has grown up a greater consciousness of the nature of the problems, political, social and economic, and of the existence of the means of solving them if we set our minds to the task. With all its limitations, the United Nations system is a monument to the change in the international environment in this respect. Consciousness of power to control economic changes in a single country — provided that the will is there — has also grown. Fifty years ago the business world was familiar with commercial crises and perhaps they were accepted to some extent as inevitable. To-day, however, the emphasis is no longer on individual crises but on business cycles in which wave is superimposed on wave. Whatever doubts may be cast on the predictability of the timing and magnitude of business changes — and the capriciousness of individual action that is inherent in a society of free men may forever be an impediment to accurate prediction — all governments are determined to take preventative and remedial steps to ward off an accumulating depression. Perhaps most important of all, the international character of booms and slumps is now fully recognized. Europe since the war has been almost obsessed with fear of the world-wide repercussions of a slump in America, sometimes to the extent of overlooking the importance of sound economic policy at home. President Eisenhower and his advisers have left no doubt, however, not only of the need for vigorous and timely action against

depression but also of the dependence of the economic as well as the political security of the United States on the policies of all countries.

This points to the outstanding change in the international environment since the beginning of this century - the growth in the power of the United States, followed by its acceptance of responsibility for the course of political and economic events.

The balance of power — that concept which only a few years ago conjured up in American minds visions of entanglements in European feuds - has become a world problem. Its centre may still be said to be in Europe, but if so, then the United States is there at the centre. So much is that country involved in maintaining world equilibrium.

Before venturing to predict how the United States will continue to act, having recognized its interests, let me remind you of the dangers of prophecy. In writing to Baron von Humboldt over a hundred and forty years ago, Thomas Jefferson predicted that America would not again « be involved in the never-ceasing broils of Europe. The European nations (he wrote) constitute a separate division of the globe; their localities make them part of a distinct system; they have a set of interests of their own in which it is our business never to engage ourselves. America has a hemisphere to itself; it must have its separate system of interests... The insulated state in which nature has placed the American continent should so far avail it that no spark of war kindled in other quarters of the globe should be

wafted across the wide oceans which separate us from them. And it will be so ». This spirit had more to be said for it in the age of Jefferson, who could not foresee how narrow the oceans were to become. But if a scientist-statesman of the distinction of Jefferson could be so wrong, how humble we should be in claiming authority for our predictions !

Russian unwillingness to co-operate may continue for a long time and « one world » may remain an ideal, but the necessity of preventing military conflict anywhere and of resisting aggression when it occurs has come to dominate the minds of all free peoples. This recognition of a common interest in maintaining the peace is being matched by the recognition of a similar common interest in economic affairs. I feel on safe ground in predicting that all nations will increasingly accept the fact that they have an identity of political and economic interests, which they will make the basis of their policy. We see the efforts that are being made on this assumption to unify national action in Europe. But Europe's interests extend beyond its own borders. This was recognized in the establishment of the Atlantic Community, but why stop at one ocean ? Not only countries with overseas territories but all European countries have ties and interests outside the Atlantic Community. Peace and economic progress throughout the world are necessary to further these interests.

In looking to the future, however, I cannot stress too strongly that continued progress depends on co-operative action among individuals, among

groups, and among whole peoples. Not least would I stress the importance of the will to work together in business. The achievements of Sofina since the beginning of this century are the result of the joint efforts of all members of the Company working in harmony together. To preserve the results of past endeavours and to go on to new achievements, harmonious teamwork is essential. If this spirit of co-operation prevails within companies, it will pervade inter-company relations in the international business community, and thereby provide a foundation for governments to work in harmony.

I have witnessed during these past fifty years crises, which in the light of their time, seemed to spell only destruction and ruin. Yet to-day, despite war and fears of war, we have made enormous forward strides in many fields through the efforts of many peoples in many places. There is no insurmountable problem if it is broached with courage and with the realization that we must not be guided nor be impressed by the madness which surrounds us. We must, then, never yield to fear, bend under unwarranted pressure, nor confuse expediency with principle. Winston Churchill has said, « Courage is rightly esteemed the first of human qualities, because it is the one which guarantees all others. » The deeds of King Albert, whom I so much admired, gave truth to these words. We must go forward fearlessly to do what we know is right. Progress is measured by accomplishment, and accomplishment by the product of man's initiative

and striving. There is no other yardstick for progress. Anything else is compromise and retreat.

My hope for the future of mankind is based on the belief that practical men will through their own collaboration lead nations along the road of co-operation in pursuit of their enlightened interests.